RECORD AND BRIEFS

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IN THE

Supreme Court of the United States

IMPRESSION PRODUCTS, INC.,

Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,

Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF OF PLANTRONICS, INC. AS *AMICUS CURIAE* IN SUPPORT OF RESPONDENT

FRANÇOIS DEVILLIERS
JEREMY DESROSIER
PLANTRONICS, INC.
345 Encinal Street
Santa Cruz, CA 95060
(831) 426-5858

DAVID BOHRER
MERCHANT & GOULD LLP
55 S. Market, Suite 1500
San Jose, CA 95113
(408) 938-3883

RACHEL C. HUGHEY
Counsel of Record
MERCHANT & GOULD PC
3200 IDS Center
80 South Eighth Street
Minneapolis, MN 55402
(612) 336-4688
rhughey@merchantgould.com

Counsel for Amicus Curiae Plantronics, Inc.

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INTEREST OF *AMICUS CURIAE*[1]

Plantronics, Inc. ("Plantronics") (NYSE:PLT) is a leading global designer, manufacturer, and marketer of headsets for business and consumer applications under the Plantronics brand, and specialty products for hearing impaired individuals under the Clarity brand.[2] Its headsets are widely used for applications such as Unified Communications, in contact centers, in the office, and in the home, with mobile devices employing Bluetooth wireless technology and Internet telephony, for gaming, fitness, music and other specialty applications.[3]

Plantronics' history is that of continued innovation and leadership in the development of hands-free communications for over 50 years. The company was founded in 1961 by two pilots working in a garage in Santa Cruz, California to develop an alternative to conventional commercial aviation headsets. In 1963, the Federal Aviation Administration selected Plantronics as its sole headset provider. The first words spoken from the moon in 1969 by Neil Armstrong—"that's one small step for man; one giant leap for mankind"—were spoken through a Plantronics headset.[4]

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1. Petitioner's counsel of record consented to the filing of this brief. Respondent's counsel of record consented to the filing of this brief by filing a blanket consent with the Clerk. No counsel for any party has authored this brief in whole or in part, and no person or entity, other than the *amicus* or its counsel, has made a monetary contribution to the preparation or submission of this brief.

2. Plantronics, Inc. 10-K (2016), *available at* https://tinyurl.com/hs3ty45 ("Plantronics 10-K").

3. *Id.*

4. Plantronics Annual Report 2016, Innovation Timeline, at 4-6, *available at* https://tinyurl.com/gqap5ra.

Plantronics has continued to pioneer new trends and technologies to meet the communication needs of its customers, whether for business, government, or personal entertainment. Plantronics is now used by every company in the Fortune 100™, as well as by 911 dispatchers and air traffic controllers, and in other mission-critical scenarios by government agencies around the world, including NASA and the military.[5]

Plantronics and its subsidiaries design and manufacture finished products, meaning that its headsets are engineered, assembled, and packaged such that they arrive in their respective markets in compliance with the pertinent regional laws and regulations, ready for immediate purchase and use by the end-user.

These finished products are widely recognized to be of the highest quality. Plantronics has received a number of celebrated product awards and accolades, including recognition from PC Magazine, CNET, the Consumer Technology Association, and BusinessWeek, as well as multiple Red Dot and International Forum (iF) product design awards.[6]

Plantronics' finished products are shipped to approximately 80 countries through a network of distributors, resellers, wireless carriers, original

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5. Plantronics 10-K; Plantronics Customer Care Now Offers Global Customer Support 24 Hours A Day, Six Days A Week (Feb. 6, 2017), *available at* https://tinyurl.com/j8vt29l.

6. *See* http://tinyurl.com/j8kvtok; http://tinyurl.com/h96b723; http://tinyurl.com/z6h7ttd; http://tinyurl.com/z2vnv59; http://tinyurl.com/h3defaf.

equipment manufacturers, and telephony and other service providers. In fiscal years 2016, 2015, and 2014, net revenues outside the U.S. accounted for approximately 44%, 44%, and 42%, respectively, of Plantronics' total net revenues.[7]

Plantronics protects the innovative technologies embodied in the design and operation of its products by seeking patent protection where this is commercially appropriate, as well enforcing trademark, trade dress, copyright, domain name, and other intellectual property rights. As of February 23, 2017, there are approximately 370 U.S. design and utility patents issued to Plantronics that are currently in-force.

Plantronics brings a unique, but no less compelling, perspective on international exhaustion as compared to other *amici*. In particular, the experience of Plantronics and other manufacturers of high-quality finished goods that are offered for sale overseas is that, due to recent innovations in shipping logistics and the world wide web, products designed for and sold into a particular jurisdiction rapidly make their way onto third-party marketplaces such as Amazon Marketplace or eBay. Consequently, these grey goods are being offered for sale in jurisdictions for which those products were never intended—and may not even be legal.

Consumers of Plantronics' goods are increasingly turning to these third-party marketplaces with largely anonymous resellers to purchase Plantronics products. These buyers often seek little more than the lowest

7. Plantronics 10-K.

price with immediate delivery, believing that the sale is authorized and legitimate—and fail to appreciate that the goods offered for sale under a single product listing together with authorized products may actually differ as to packaging, accessories, warranty, support, and technical capabilities. As a result, Plantronics has empirically identified a growing trend of dissatisfaction amongst its U.S.-based consumers who find themselves in receipt of grey goods not intended for the U.S. market.

Plantronics agrees with the Federal Circuit's decision and its legal analysis and largely agrees with Lexmark's legal analysis of both questions before the Court, and will not burden the Court by repeating it.[8] Plantronics submits this brief to assist the Court with its understanding of the practical impact of its decision relating to the issue of international patent exhaustion. Patent exhaustion, if applied to Plantronics' foreign sales, interferes with Plantronics' ability to ensure that all of its products delivered to end-users within the U.S. meet the quality expectations and regulatory requirements of the U.S. market, which it presently endeavors to ensure, at least in part, through anti-grey market efforts. Plantronics has a substantial interest in the proper resolution of this case, namely that an authorized foreign sale does not exhaust United States patent rights.

SUMMARY OF ARGUMENT

The combination of the rise of online marketplaces such as Amazon Marketplace and eBay and cheap international shipping enables virtually anyone, anywhere

8. *See* Respondent Brief.

in the world, to make sales into the United States. In some of these online marketplaces, the products may be listed in a way as to create the impression that the products for sale are authorized by the original manufacturer when, in fact, they are not. Instead, the product may have been purchased in a foreign location by a third party (and then stored for some indeterminate amount of time and in an unknown way) before being sold into the United States. Products purchased in foreign jurisdictions and then re-sold by third-party resellers into the United States without authority are known as "grey goods" or "grey market goods."

Grey goods undermine an innovator's ability to control quality of the product and presentation, as well as pre- and post-sale services and warranties. Third-party resellers are not bound by quality requirements, are generally not interested in the end-user other than to make a sale, are unconcerned about regulatory or other market-specific requirements, and have no vested interest in the brand. Grey goods harm Plantronics, harm its partnerships, and harm its customers, much as they harm other innovators. International exhaustion would devalue U.S. patents by destroying the essential geographical nature of U.S. patent rights. Allowing international exhaustion of patent rights due to foreign sales would harm consumers and innovators like Plantronics because it limits a tool that innovators can use to police against grey goods.

This brief focuses on the second question before this Court, explains the harms of grey goods to both innovators and consumers, and demonstrates that this Court should not overrule the status quo and permit the authorized sale of products in foreign jurisdictions to exhaust U.S. patent rights.

ARGUMENT

I. Innovators' businesses and reputations are harmed by grey goods.

Plantronics is an innovative company with a reputation for providing exceptionally high-quality products and excellent customer experience. It does this by managing the distribution of its products and offering its products exclusively through its authorized partners. Without a substantial marketing and advertising budget or its own specialty storefronts, Plantronics relies heavily on positive customer experiences and favorable customer reviews that are conveyed by word-of-mouth or posted online. Thus, Plantronics is particularly sensitive to any negative customer experiences, which are not easily mitigated.

The experience of Plantronics and other manufacturers of high-quality finished goods that are offered for sale overseas is that products designed for and sold into a particular jurisdiction rapidly make their way onto third-party marketplaces. These grey goods are being offered for sale by third-party resellers with whom there is no privity of contract and consequently they are not constrained by any claim by Plantronics that they have breached a contractual obligation.

On the sellers' side, international price differentials, product differences, and fluctuating exchange rates allow grey goods resellers to obtain advantageous pricing on goods.[9] Sometimes, the inventory on which such

9. Seth E. Lipner, The Legal And Economic Aspects Of Gray Market Goods (1990).

differences exist are diverted even before they reach their intended country of sale, avoiding the local regulations or other circumstances for which price adjustments may have been made. Sometimes, non-U.S. distributors and resellers sell excess inventory in bulk at or near cost to grey goods resellers that intend to resell the goods to end-users both in the U.S. and elsewhere around the world. At other times, grey good resellers misrepresent themselves as local end-users to obtain the product at favorable pricing in the country in question.

To these grey goods resellers, third-party marketplaces, with programs that facilitate global shipping or provide advanced international fulfillment networks, render it just as easy to sell across the world as it is to sell domestically. For example, Amazon notes that as a result of opening "its virtual doors to let other third-party companies sell products on Amazon.com . . . 'most of the hundreds of millions of products [on Amazon.com] are offered by third-party sellers, rather than Amazon itself.'"[10] Moreover, Amazon provides these third-party sellers with payment processing and disbursement services, as well as access to Amazon's logistics network, such that a third-party seller can send their inventory to be sold on Amazon Marketplace in advance, and when a customer orders a product from the third-party seller, Amazon "pulls the product off the shelf, packages it, and ships it to the customer on behalf of the seller."[11] Amazon has built relationships with carriers such as the U.S.

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10. *Milo & Gabby LLC v. Amazon.com, Inc.*, No. 16-1290, Response Brief of Defendant-Appellee Amazon at 6, filed April 21, 2016, ECF No. 24 (Fed. Cir.).

11. *Id.* at 5, 9.

postal service, UPS, and FedEx, and, "[w]ith fulfillment centers strategically placed around the country, Amazon can ship products from the closest fulfillment center to the customer 'quicker than if the seller is shipping the product directly to the customer themselves.'"[12] Often, third-party marketplaces allow sellers to attach an offer for sale to a pre-existing product listing, such that multiple sellers can offer a product for sale by providing little more than a sales price.[13]

On the other side of the transaction, consumers are turning to these third-party marketplaces, with largely anonymous resellers,[14] to purchase their electronic devices. In fact, electronic devices likely constitute the largest share of grey goods sold on the Internet.[15] These buyers often seek little more than the lowest price with immediate delivery, believing that the sale is authorized

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12. *Id.*

13. *See, e.g., id.* at 6-8; *see also* Amazon's instructions for creating a listing by way of the "Sell yours here" button, *available at* https://tinyurl.com/zd4hzd4.

14. Investigations into lowest price "U.S.-based" resellers of Plantronics goods routinely lead to sellers, and their goods, that are actually located in Asia, including, for example, countries such as Malaysia, Hong Kong, Singapore, and Indonesia.

15. Soumava Bandyopadhyay, *The internet and gray marketing*, Int'l Bus. & Economics Research J., 9(6), at 95 (June 2010), *available at* http://tinyurl.com/gwfr45k. In 2002, KPMG estimated that consumer electronics ("computers and related products") were amongst those most affected by grey market activity, with up to $40 billion in annual grey market sales. *See* KPMG International, The Grey Market, Full Survey Report at 3 (2002), *available at* http://tinyurl.com/jhttz43.

and legitimate—and fail to appreciate that the goods offered for sale under a single product listing together with authorized products may actually differ as to packaging, accessories, warranty, support, and technical capabilities. As a result, Plantronics has empirically identified a growing trend of dissatisfaction amongst its U.S.-based consumers who find themselves in receipt of goods not intended for the U.S. market.

A. Grey goods are often damaged or otherwise inappropriate for the jurisdiction and often result in a poor customer experience and damage to innovators' reputations.

Plantronics has found that grey goods sold by unauthorized third-parties lead to significantly diminished customer experiences. The lowest price is not the only thing that matters to the customer, and purchasers of grey goods often have poor end-user experiences.

Some Plantronics products are designed, and legally only intended, to operate in specific jurisdictions. Different countries have different electrical supply configurations. Electrical sockets in the United States differ from sockets in Singapore, which differ from sockets in Australia, etc. A power adapter designed for a foreign market will not necessarily work in a socket in the United States. Products sold in different countries may have incompatible plugs and accessories. Thus, consumers receiving grey goods may receive products that include incompatible accessories.

Moreover, many Plantronics headsets include voice prompt functionality that informs a headset wearer

of incoming calls, headset status, or battery level by way of in-ear announcements, and/or voice command functionality that allows the headset wearer to manage his or her phone calls without pressing any buttons (*e.g.*, by speaking "answer" or "ignore," etc.). These functionalities are localized, prior to shipping, to match the destination market. In other words, headsets delivered to China are pre-configured to speak and understand Chinese, headsets delivered to the United States are pre-configured to speak and understand American English, and headsets delivered to the United Kingdom are pre-configured to speak and understand British English. This correlation carries over into other countries within South America, Africa, Europe, and Asia. It likely does not need to be stated that a headset configured to respond to Chinese or Spanish voice commands will not respond to spoken English; but, due to differences in American English and British English speaking patterns, it is likely that even a headset configured to respond to British English will frustrate an American English-speaking user. Some headsets ship with language packages that are not user upgradeable. Some headsets contain language packages that are user upgradeable, but the user must connect the headset to an Internet-connected computer in order to obtain a new language package and replace the language package installed on the headset. In either case, a U.S.-based consumer that receives a headset originally intended for another country, and not configured with American English, is likely to have a lackluster initial customer experience because the product, at the moment it is unpackaged and placed in their ear, will not be ready for use as expected.[16]

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16. Alternatively, the headsets might be opened and tampered with (or damaged by) the grey goods reseller in an attempt to address this issue.

Alternatively, because grey goods are purchased in foreign locations and then sold into the United States, they are often opened and then repackaged with loose, missing, or replaced parts in an attempt to substitute the location-specific accessories with the proper accessories for the United States. For example, some third-party resellers open packaging and replace the original charger with a substitute charger to meet the domestic power requirements. Unfortunately, these accessories may not be genuine high-quality Plantronics products. Instead, the replacement accessory may be a low-cost and low-quality generic replacement. These poor quality replacement accessories may affect the operation of the products, including creating fit issues, and increasing charge times. In some instances, sellers of grey goods have been found to duct-tape accessories to the outside of the original boxes, risking product damage and creating a very unfavorable brand experience for the recipient. More problematic, generic replacement products may not meet electrical or hazardous-substance safety requirements.

Likewise, the packaging and instructions accompanying grey goods are often not appropriate for the jurisdiction. The jurisdiction-specific packaging may be in a different language, causing customer confusion and frustration.

Further, there may be operational or technical limitations depending on the jurisdiction. For example, there are different radio frequency regulations in different countries. Products designed for one jurisdiction may not meet the standards that are in place in another

jurisdiction, or may interfere with other devices.[17] Ignoring these restrictions can result in interference and incompatibility. Grey goods sellers are rarely concerned about the issues that arise due to selling devices into prohibited jurisdictions, or the issues that their buyers may encounter. Consumers may not be aware that the grey good products they are purchasing were not built or designed with their market in mind, much less the harm that such products may cause. Also, in some instances, a given product shipped to one jurisdiction includes a different set of features than the same product that is shipped to one or more other jurisdictions.

Also, grey goods products may be sold years after they were originally put on the market in the foreign jurisdiction. Timely sale of fresh goods is important to all quality manufacturers, including Plantronics. Old

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17. Wireless products for the U.S. market that employ Digital Enhanced Cordless Telecommunications (DECT) 6.0 (operating in the 1920-1930 MHz frequency band) are prohibited from use in Europe, as they cause and experience interference with European cellular networks. Similarly, wireless products employing European DECT (operating in the 1880–1900 MHz frequency band, with a greater transmission power ceiling) are prohibited in the U.S., as they cause and experience interference with U.S. cellular networks. Regional or continental sensitivities are likely to become only more aggravated by the ever-growing adoption of wireless technologies, such as ultrawide-band communications, and the differences in the operational constraints on such technologies that have been proposed by the relevant regulatory authorities. *See, e.g.*, Haim Mazar, An analysis of regulatory frameworks for wireless communications, societal concerns and risk: the case of Radio Frequency (RF) allocation and licensing (2008); Haim Mazar, *A comparison between European and North American wireless regulations*, Telecom World (ITU WT) (2011).

products may have out-of-date software or diminished product life. As one example, rechargeable batteries are adversely affected by extended periods of non-use, both in terms of overall service life and the length of time a device can operate on a full charge. A consumer receiving a grey good with diminished capabilities is going to blame the original manufacturer, not the dubious supply chain.

Plantronics sells high-quality premium products that it wants presented to customers in a premium manner. Plantronics relies on the customer's experience when opening the product to create a favorable initial impression. The so-called "unboxing" experience is a crucial part of the modern brand experience, even being featured in YouTube video reviews.

Plantronics has found that the packaging for grey goods is often improper or damaged. Further, grey goods are often opened and repackaged in an attempt to substitute jurisdictionally incompatible accessories with those that are compatible. The products may be repackaged (poorly) in a different box, with a different configuration. Not only does this decrease the quality of the product, but it decreases the quality of the customer experience—the "unboxing" experience is ruined for the consumer. Also, Plantronics makes a relatively intimate product—a headset is worn on the user's face, goes in the user's ears, and is near the user's mouth. Products that are not in their original, sealed packages are viewed with suspicion by recipients, since they may already have been worn by someone else. Further, Plantronics packages its products intended for business customers in plain packaging while packaging the same product intended for a consumer in a colorful and engaging package. A

consumer receiving a business package is going to have a different experience than if they had received a consumer package. This too harms the customer experience.

All of these issues lead to a poor customer experience and low customer satisfaction. This, in turn, harms Plantronics.

B. Grey goods result in poor customer service.

Grey goods also have the potential to significantly reduce the customer's continuing experiences with the product. For example, grey goods make it difficult for Plantronics to perform recalls on its products. Infrequently, Plantronics may issue a recall or deal with a quality issue. Its method for handling these kinds of issues is to reach out to its authorized channel and then replace the product or take other steps to address the product issue. With grey goods, Plantronics is unaware that the transaction even occurred, which frustrates its ability to support the buyers of such products.

Further, Plantronics' authorized sellers provide a variety of follow-up services, including training, education, support, and warranty services. Because they did not make the grey goods sale, they may not provide the follow-up services customers of grey goods want or expect. Customers are likely to have a poor customer service experience if warranty claims are denied because the product is a grey good or otherwise damaged or stale due to the manner it was provided by the unauthorized seller.

If, on the other hand, a grey goods customer seeks relief from the unauthorized (grey good) reseller, it may

have issues communicating due to language or time zone differences, and is unlikely to receive the level of support provided through authorized channels, if any support is provided at all. Thus, the service experience will be poor. And even if consumer can obtain a refund from the unauthorized seller, it is likely there will be extra steps and inconvenience required to obtain the refund or proper product. This, too, will cause the customer to have a negative experience.

Thus, while a customer may, in the first instance, be able to obtain a lower price point for a grey good, in the long run it is unlikely the customer will have the customer service experience intended by the manufacturer.

C. Grey goods harm business partnerships.

Plantronics and its partners make specific investments in marketing and customer support based on geographic market. Plantronics' partners would not be motivated to invest in marketing or support of goods if the first authorized foreign sale exhausted U.S. patent rights.

Plantronics relies on a network of authorized distributors and resellers to sell and service its products. These authorized partners invest time and money into training sales and support staff and conducting marketing and promotional activities in order to promote and sell Plantronics products. Grey goods sellers exploit the marketing and services offered by the authorized sellers without themselves having made any investment into the brand or its visibility.

Providing customer support for grey goods puts undue stress on Plantronics' authorized partners. When the buyer of a grey good experiences a problem, that buyer may seek help from one of Plantronics' partners, placing a burden on the authorized seller for a product that they did not sell. Even more, when the problem is due to regional packaging, accessories, or operational constraints, that partner is often ill-equipped to remedy the customer issue. Consequently, the purchase of an unauthorized grey good by a single consumer can deprive an authorized seller of both a sale and their time. Grey goods thus create a warranty and service burden on authorized sellers that did not make the original sale.

Authorized sellers in the United States, particularly those with brick-and-mortar stores, may not be able to match the prices offered for grey goods and remain profitable. Either they are unable to make the sale or they must compete on price for a sale that is not profitable. This, in turn, can make them unwilling to invest in Plantronics' products and services, and unwilling to provide marketing and product visibility. Plantronics' authorized distributors and resellers are thus less willing to conduct business with Plantronics when they are forced to compete with grey goods.

In addition, the authorized sellers may see advertised prices for grey goods and then demand price matching. Even the offer for sale of a small quantity of grey goods online can do immense damage to Plantronics' large orders placed by its authorized sellers, when those sellers demand lower prices in order to allow them to compete with a *de minimis* grey goods offer.

II. There are legitimate and important reasons to allow innovators to price products differently depending on the jurisdiction.

A patent holder often has legitimate reasons for pricing its products differently based on geography. Innovators may want to offer pricing adjustments to local partners to offset local costs. Some jurisdictions may rely primarily on sales through brick-and-mortar stores, which are expensive and require pricing considerations. Innovators may spend different amounts on marketing depending on the area, and thus need those costs to be made up in the sale price of the product. And certain jurisdictions may not be in a position to support the same pricing as other jurisdictions. There is a certain level of pricing that makes sense for the innovator to operate in each country to ensure a reasonable return on the investment in research and development required to create new and innovative products.

III. Exhaustion of U.S. patent rights based upon a sale in a foreign market denies innovators the protections guaranteed by U.S. patent law.

A. The status quo is that an authorized foreign sale does not exhaust U.S. patent rights.

Under governing law, foreign sales do not exhaust domestic patent rights. *See Boesch* v. *Graff*, 133 U.S. 697, 703 (1890); *Fuji Photo Film Co.* v. *Jazz Photo Corp.*, 394 F.3d 1368, 1371, 1376-77 (Fed. Cir. 2005); *Jazz Photo Corp.* v. *Int'l Trade Comm'n*, 264 F.3d 1094, 1098, 1105 (Fed. Cir. 2001). Thus, the status quo is that unauthorized importation of a grey good is an infringement.

B. International exhaustion would render the territorial nature of patents meaningless.

The status quo is consistent with the territorial scope of patents. *See Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U.S. 518, 531 (1972) (confirming that the patent system "makes no claim to extraterritorial effect"), *abrogated in part by* 35 U.S.C. § 271(f) (2006); *Rotec Indus., Inc.* v. *Mitsubishi Corp.*, 215 F.3d 1246, 1251 (Fed. Cir. 2000) (*quoting Dowagiac Mfg. Co.* v. *Minn. Moweline Plow Co.*, 235 U.S. 641, 650 (1915)) (noting "[t]he right conferred by a patent under our law is confined to the United States and its Territories" and that infringement of U.S. patents "cannot be predicated of acts wholly done in a foreign country").

A sale anywhere in the world that is authorized by the patentee and that exhausts the patentee's U.S. rights renders the territorial scope of all patents, U.S. or foreign, meaningless. An example may be illuminating. Assume *arguendo* that a patentee has a U.S. patent and an Australian patent for the same invention. An Australian company approaches the patentee seeking the right to make and sell products covered by the patent in Australia. Should the patentee license the Australian patent to the Australian company, the authorized sale of the patented product by the Australian company would exhaust the U.S. patent rights under the change in law proposed by Petitioner. A third-party reseller, upon purchasing the product from the Australian company, could import the product into the U.S. without fear of infringing the patentee's U.S. patent. The Australian company may have no interest in the U.S. market, but the patentee would have to price the royalty payable under the license to account

for the fact that the Australian company's products might ultimately be imported into the United States by a third party. In such a case it may not make economic sense for the Australian company to take a license, depriving the Australian market of the product and the patentee of a just reward for its foreign patent right.

Furthermore, assume that the patentee does not have a patent for the invention in Argentina. In order to compete in Argentina with local companies that are using the patented technology without paying royalties under a patent, the patentee may reduce its prices within the Argentinian market. However, a sale by the U.S. patentee of its product in a jurisdiction in which there is no exercise of patent rights will exhaust the U.S. patent rights under the change in law proposed by Petitioner. This will again dissuade the U.S. patentee from participating in foreign markets. Such a result is illogical.

International exhaustion would also be bad for consumers of products in foreign jurisdictions. It would require patent holders such as Plantronics to either restrict sales to higher-income markets or offer goods at a globally uniform price, to the detriment of consumers in lower-income countries. If all sales, worldwide, were to include the rights of Plantronics' U.S. patents, then the prices of such sales would need to be adjusted to reflect this reality. As a result, prices in various foreign jurisdictions would be increased, not based on the respective local markets, but instead based on a change in the law in the U.S. This is unfortunate for foreign consumers of Plantronics' products, who should not have to pay for the value of U.S. patent rights, and may be catastrophic in other contexts (such as pharmaceuticals). Many foreign markets would be unable to bear such an increase.

C. International exhaustion is improper because the patentee has not reaped the benefit of its U.S. patent rights.

International exhaustion should not be permitted because the patentee has not reaped the benefit of its U.S. patent when it has sold a product into a foreign market. *See United States* v. *Masonite Corp.*, 316 U.S. 265, 278 (1942) (noting that patent exhaustion depends on "whether or not there has been such a disposition of the article that it may fairly be said that the patentee has received his reward for the use of the article."). "[T]he market award, under the statute, is explicitly the reward available from American markets subject to American laws, a reward obtained by selling or authorizing sales in those markets." *Lexmark Int'l, Inc.* v. *Impression Products, Inc.*, 816 F.3d 721, 761 (Fed. Cir. 2016) (en banc). International exhaustion would deny innovators such as Plantronics the benefit of the full value of their U.S. patents.

D. International exhaustion would weaken U.S. patent rights and discourage innovation.

A primary purpose of the patent laws is to promote innovation. *See* U.S. Const., Art. I, §8, cl. 8 ("To promote the Progress of Science and useful Arts"). A strong patent system encourages innovation and encourages companies to invest in research and development. *See* Jonathan Barnett, Patent Tigers: The New Geography of Global Innovation at Abstract (2016) (draft), *available at* https://tinyurl.com/j67p2xs (explaining that "patents can promote entry into technology markets by economies that are rich in intellectual and human capital but have small domestic markets in which to extract returns on that capital").

Plantronics invests a significant amount of money into its research and development, its brand, its support and service, and its partnerships with its authorized distributors and resellers in reliance on strong patent rights. This investment should be protected and encouraged. Allowing innovators like Plantronics to use its U.S. patents to protect against grey goods will encourage it to continue to invest in research and development and to pursue U.S. patents. International exhaustion would discourage innovation.

IV. The policy of presumed international exhaustion is impractical and has the same effect as conclusive international exhaustion of denying innovators the rewards that should flow from U.S. patent protection.

Practically speaking, there is little difference between Petitioner's argument that an authorized foreign sale *always* exhausts the patentee's rights in the sold article (Petitioner Br. at 44-58), and the United States' "intermediate" approach, under which a patentee's express reservation of U.S. patent rights at the time of a foreign sale will be given effect, "but those rights will be deemed exhausted if an authorized foreign sale occurs and no express reservation of U.S. patent rights is made." (United States Br. at 22.) Setting aside whether there is compelling legal authority for presumptive exhaustion, the lack of guidance on when and how to make an effective reservation under this policy is itself unduly prejudicial. The Federal Circuit in its en banc decision acknowledged the uncertainty of such a system. *Lexmark*, 816 F.3d at 772.

Even assuming an express reservation could be made, it is unduly burdensome to impose on finished goods manufacturers such as Plantronics the obligation of making such a reservation as to each of tens of thousands of sales annually into over 80 different foreign jurisdictions, and maintaining notice of this reservation through to receipt of the product by the intended end-user. There is, for example, a significant difference between reserving U.S. patent rights in connection with the foreign sales of Plantronics' finished goods and the Respondent's single use cartridges. The latter situation involves a fungible, disposable, and easily identifiable component with a microchip disabling further use after the toner is depleted. These circumstances allow the Respondent to include a conditional sales contract and single-use license as part of the authorized distribution of the cartridges. However, Plantronics' products are diverse combinations of multiple components that are sold in finished form and capable of multiple sales and resale following the initial authorized sale into a foreign jurisdiction. It is much more difficult to track, monitor and expressly preserve any patent rights on these products. Maintaining reservations with 80+ countries' laws (in Plantronics' experience) is expensive and impractical for an American company operating globally. There is no compelling legal or practical support for the proposed presumptive-exhaustion approach.

CONCLUSION

For the foregoing reasons, the Court should affirm the judgment of the court of appeals.

Respectfully submitted,

FRANÇOIS DEVILLIERS
JEREMY DESROSIER
PLANTRONICS, INC.
345 Encinal Street
Santa Cruz, CA 95060
(831) 426-5858

DAVID BOHRER
MERCHANT & GOULD LLP
55 S. Market, Suite 1500
San Jose, CA 95113
(408) 938-3883

RACHEL C. HUGHEY
Counsel of Record
MERCHANT & GOULD PC
3200 IDS Center
80 South Eighth Street
Minneapolis, MN 55402
(612) 336-4688
rhughey@merchantgould.com

Counsel for Amicus Curiae Plantronics, Inc.

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